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**VIA HAND DELIVERY**

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Acting Secretary

Federal Communications Commission

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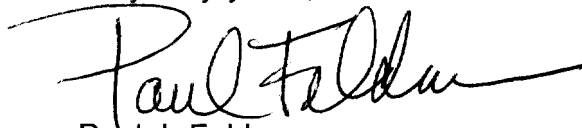
Re: CC Docket No. 97-149  
Rebuttal of Roseville Telephone Company

Dear Mr. Caton:

On behalf of Roseville Telephone Company, I hereby enclose an original and six copies of its Rebuttal to the AT&T Opposition to Direct Case in CC Docket No. 97-149.

If there are any questions regarding this matter, please contact me.

Very truly yours,



Paul J. Feldman  
Counsel for  
Roseville Telephone Company

PJF/jr

Enclosures

cc: Certificate of Service  
Mr. Greg Gierczak (w/encl.)

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**Before the  
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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

<b>In the Matter of</b>	)	
	)	
<b>1997 Annual Access</b>	)	<b>CC Docket 97-149</b>
<b>Tariff Filings</b>	)	

**To: Chief, Competitive Pricing Division, Common Carrier Bureau**

**REBUTTAL OF  
ROSEVILLE TELEPHONE COMPANY**

Roseville Telephone Company ("Roseville") hereby rebuts the Opposition to Direct Cases (Opposition) filed by AT&T, Inc. ("AT&T") on September 17, 1997 in accordance with the July 28, 1997 Designation Order.<sup>1</sup> In this proceeding, the Commission designated the issue of the lawfulness of Roseville's proposed requirement for cash working capital ("CWC"). As shown in its Direct Case, Roseville respectfully submits that its calculated CWC requirement is (1) accurately calculated, (2) normal and representative of Roseville's operations for the CWC study period, and (3) normal and representative for the test period in this proceeding (the twelve months beginning July 1, 1997).

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<sup>1</sup>1997 Annual Access Tariff Filings, CC Docket No. 97-149, Order Designating Issues for Investigation and Memorandum Opinion an Order on Reconsideration, DA 97-1609, released July 28, 1997 ("Designation Order").

**A. AT&T Implicitly Recognizes the Propriety of Roseville's Use of the Lead-Lag CWC Method.**

AT&T takes issue with only two calculations performed by Roseville in connection with its CWC lead-lag study: (1) the calculation associated with the reflection of the February 1995 NECA Pool revenue lag (Opposition at p. 38, n. 51), and (2) the calculation associated with Roseville's payment of estimated taxes during the period under review that were later applied to the following year (*Id.* at n. 52). The relief AT&T seeks is (a) Roseville's explanation of the NECA Pool composite revenue lag for February 1995 or the recalculation of Roseville's CWC revenue requirement related thereto, and (b) recalculation of the CWC revenue requirement related to income tax expense lags. Opposition at p. 38.

AT&T, therefore, implicitly recognizes the fact that a company-specific lead lag study is the preferred method of calculating cash working capital requirements, but simply seeks an explanation and/or recalculation of, at most, two subsidiary lead-lag calculations, rather than use of the generic optional 15-day CWC proxy formula (method no. 3 of Rule 65.820(d)).<sup>2</sup> Roseville respectfully submits that the results of its lead-lag study exceed the 15-day proxy value of the optional formula, with or without

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<sup>2</sup>AT&T also takes no issue with (1) the fact that Roseville's CWC study period of calendar 1994 is reasonably contemporaneous with the test period in this proceeding, (2) the fact that Roseville's choice of representative sample months within the study period for specific analysis of individual revenue and expense categories ensured evaluation of normal and representative operating experience, and the fact that Roseville's conversion of its analyses to a three-month equivalent study period minimized fluctuations in billing and collecting data and ensured consistency. See Direct Case at pp. 26-27.

recalculation of the two items questioned by AT&T, and equally demonstrate that the proxy formula as applied to Roseville would arbitrarily negate the Company's own actual operating experience.

Nevertheless, AT&T continues to attempt to confuse the issue by referring directly and indirectly to imputed calculations of Roseville's CWC requirements based on the combination of erroneous figures (as discussed in B. below) and the optional proxy formula (Opposition at pp. 34-35, Appendix G). All references to the proxy formula, including AT&T's Appendix G, however, are irrelevant to the Commission's inquiry as well as the specific relief sought by AT&T. As was set forth in Roseville's Direct Case and left uncontested by AT&T, the company-specific lead-lag study method of determining cash working capital is the preferred method (Rate Base Component Order, 3 FCC Rcd at p. 279), because this method most closely analyses the actual flow of dollars into and out of a company's accounts. The Commission has permitted Class B Carriers to use one of the two simplified generic CWC formulas, but only so as to relieve carriers of the burdens associated with performing full lead lag studies. There is no reason to use the proxy method so long as a reasonably contemporaneous, representative and accurately calculated lead-lag study is of record, as it is here.

**B. AT&T Reiterates Its Miscalculation of Roseville's Composite Net Revenue Lag.**

Without any explanation, or discussion of underlying figures, AT&T has again alleged that Roseville's lead-lag study has produced a 62.3 day composite net lag in receipt of revenues (Opposition at p. 35, Appendix G). In its Designation Order at p. 29, n. 94, the Staff, however, has already agreed with Roseville that "Roseville's proposed cash working capital calculations resulted in a net lag of 49 days."

AT&T's 62.3 day assertion is as erroneous now as it was when first alleged by AT&T in its Petition filed herein on June 27, 1997 (Petition at p. 2, Attachment A). All of the numbers as well as AT&T's approach are precisely the same (cf. Opposition, Attachment G).

On July 1, 1997, Roseville filed its Reply to AT&T's Petition, wherein Roseville demonstrated that, (1) AT&T had chosen data from Roseville's Tariff Review Plan Schedule COS-1(P), p.2, which data represent operating and tax expenses after the addition of CWC to rate base (resulting in the erroneous doubling of the income tax effect of including CWC in rate base when AT&T attempted to calculate the revenue requirements associated with what it claimed to be excess CWC by grossing up for taxes), and (2) AT&T had erroneously and inexplicably excluded Billing and Collection and Interexchange Services from Roseville's total interstate expenses even though the correct figures can be found on the same page of the Tariff Review Plan (Reply at pp. 2-3, TRP Schedule COS 1(P), p. 2). As shown by Roseville, AT&T's asserted total

interstate expenses for Roseville is understated by \$3,109,175 and AT&T's asserted daily expenses for Roseville is understated by \$8,483 (Reply at p. 3), or fully 27.3%<sup>3</sup>

Once Roseville's Reply to AT&T's Petition placed AT&T on notice that its calculation of Roseville's net revenue lag is clearly in error, Roseville submits there can be no doubt but that AT&T's reiteration of the same erroneous net lag calculation in its Opposition is patently intended to mislead the Commission's Staff in its review of Roseville's CWC. Indeed, AT&T continues to raise its erroneous 62.3 day lag figure in order to contrast it inappropriately with its calculation based on the 15 day, proxy formula. In addition, AT&T's calculation using the 15-day proxy allowance uses the same incorrect expenses. (Opposition, Attachment G).

**C. AT&T's Concern about One Month's Revenue Lag from NECA's Settlement Process Is Unfounded.**

In its Direct Case, Roseville has set forth a full explanation of the effects of NECA Pool payment lags on Roseville during the study period of its lead-lag study (Direct Case at pp. 13, 16-18, 26, Attachment A Schedules 6-1 through 6-12). As explained therein, Roseville analyzed all NECA Pool initial, interim and final settlements

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<sup>3</sup>AT&T should have chosen the access expense figures shown on line 16 of Cost Support Schedule CWC-1, which total \$14,470,496 and which are already net of depreciation and amortization, and which also include the book income tax numbers on line 9 and 10 rather than the imputed tax numbers after addition of CWC to rate base as are found on p. 2 of Tariff Review Plan Schedule COS 1(P). Dividing the total interstate expenses of \$14,470,496 by 365 days produces the correct daily expense figure of \$39,645. Dividing this figure into the CWC figure on AT&T's Attachment G confirms Roseville's calculation of a net 49-day revenue lag.

affecting the Company during the twelve months ended March, 1995, using the Dollar Day Approach. The Company used this twelve month period in order to cover the calendar 1994 overall lead-lag study period while ensuring that the most significant interim settlement for this period was included (the most significant interim settlement normally occurs during the first part of the year following the preceding calendar period under review). To do otherwise would have distorted the results, rendering the period under review unrepresentative for CWC purposes. The result of Roseville's analysis is a composite lag in receipt of NECA Pool revenues of 82.44 days for the study period (Direct Case at p. 17). The Company also showed that this composite lag is reasonably representative of Roseville's current operating experience (Id. at p. 18).

In AT&T's comments regarding Attachment A Schedules 6-1 through 6-12 of Roseville's Direct Case, AT&T has pointed out that the composite NECA Pool results for Roseville regarding eleven of the twelve months studied reflected a lesser lag than AT&T would have expected (Opposition at p. 38 and p. 38, n. 51) -- with neither of which lag AT&T takes any issue. Indeed, in suggesting that there is no problem with the results of the eleven months, AT&T finds no issue with Roseville's having analyzed all initial, interim and final NECA settlements. AT&T, however, questions the actual results of the single month of February 1995, wherein the NECA Pool composite revenue lag is 181.49 days, and states that, "Roseville should be required to explain this apparent discrepancy" (Opposition at p. 38, n. 51).

The NECA Pool, created in 1983 as required by the Commission and in accordance with the Commission's Rules and Regulations, establishes the rates to bill

AT&T and other interexchange carriers for exchange access on behalf of its participating members. The Pool disburses settlements to its members based upon their actual operating experience, but first makes initial and subsequent interim settlements to its members based upon forecasted cost data. If there were no initial and interim true-up settlements based upon forecasted operating costs of each member, any disbursements based on actual operations would occur many months on average after the service month being settled, cash flow of all the members would be significantly reduced, and CWC requirements of the members including Roseville would be higher than they currently are. One of the benefits of the NECA interim process is to flow revenues and associated cash to recover each company's operating expenses while minimizing the cash working capital requirements until final settlements can be obtained based on actual operating expense of each member company.

Since the revenue collected and reported to the Pool for settlement is finite, any adjustment by member companies from estimated operating data to more refined operating data and from refined operating data to final operating data will have an effect on the settlement process affecting all participating members. In the aggregate, these adjustments by members can have a significant impact on NECA settlements throughout any period analyzed. The primary example of this interaction occurs in the first part of the following year with respect to updating interim to final settlement to reflect actual operating data of the preceding calendar year.

The composite lag in receipt of revenue from the NECA Pool in any of the months following the settlement year is directly related to the closing of the books and

completion of FCC Part 36 and Part 69 cost studies of each participating Pool member. The interactions among the Pool members' new information in relation to their earlier estimates of operations provided to the Pool during that calendar year can affect the final settlement and cash disbursements to each member for that calendar year. Accordingly, this process can significantly impact the lag day result for the single month in which the changes occur.

The question with respect to the February settlement, however, should not be whether its resulting composite lag is significantly different from that of other months, but whether the lag-day results for any particular month are normal and reasonable.

February 1995 for Roseville is no exception to the rule. Roseville also has determined that its NECA Pool experience during the period studied in this proceeding is reasonably representative not only of past periods but of Roseville's current operating experience as well (See Direct Case at pp. 18, 26). Accordingly, Roseville's lead-lag study is reasonably representative of the Company's experience during the test period of this proceeding (the twelve months beginning July 1, 1997).

Clearly, then, AT&T's assertion that "Roseville...should be required to explain why [its] revenue [lag deviates] so greatly from those of other LECs participating in the NECA settlement process" (Opposition at p. 38) is a gratuitous assertion without any basis in fact, or asserted basis in fact. Not only are Roseville's NECA Pool revenue lags, overall and for February 1995, normal and representative of Roseville's actual operating experience, there is every reason to believe that the other cost company

NECA Pool participants experience NECA Pool composite revenue lags that are similar.

**D. AT&T Seriously Misrepresents Roseville's Comments Regarding Overpayment of Taxes**

In its Direct Case, Roseville has explained the effect of the Company's minimal overpayment of estimated tax in comparison with final income taxes owed, which was made necessary in order to prevent the imposition of tax penalties (Direct Case at pp. 20-22, 28, Attachment A Schedule 18). The expense lags resulting from Roseville's analysis of federal and state income taxes are 15.46 days and 8.99 days, respectively (Direct Case at p. 20, Attachment A Schedule 18).

As noted therein, the income tax payments analyzed include federal estimated tax of \$732,000, or 7.4% of final tax liability, applied to the following year, and California estimated tax of \$289,000, or 9.0% of final tax liability, also applied to the following year (Direct Case, Attachment A Schedule 18).

Payment of estimated tax in excess of final tax liability in fact resulted in the normal course of business. Federal law requires that at least 100% of final taxes owed for a company's fiscal year must be paid in estimated tax installments during the fiscal year in accordance with the statutory formula -- or a tax penalty is levied. Similarly, the law of California requires that at least 95% of final taxes owed for a company's fiscal year must be paid in estimated tax installments during the fiscal year - or, again, a tax penalty is levied.

Roseville, therefore, makes every effort to avoid incurring tax penalties, while endeavoring to minimize estimated overpayments. Indeed, the Company would not be able to include tax penalties in its cost of service and related revenue requirements for either interstate or intrastate ratemaking purposes and the impact of tax penalties on Roseville's need for cash working capital would likewise be disallowed. The least cost alternative is for Roseville and other companies to ensure meeting the tax payment thresholds squarely so as to prevent the imposition of penalties while, at the same time, minimizing its estimated tax overpayment to the extent possible. The problem is that significant timing differences, not fully known at the time of making estimated tax payments, affect Roseville's and other companies' ability to make estimated tax payments which exactly equal final tax liability for the year.

If the effect of the minimal estimated FIT and SIT overpayment analyzed in Roseville's lead-lag study in this proceeding were disallowed for ratemaking purposes, Roseville would be denied the ability to recover a necessary and proper expense of doing business and would be unfairly penalized by the Commission for preventing the imposition of tax penalties in accordance with sound business practice. Roseville would be left in the classic position of a "Catch 22," wherein the effects of any tax penalty incurred would be disallowed for ratemaking and the effect of any temporary overpayment of estimated tax to prevent the imposition of a tax penalty would be disallowed as well. It would be unreasonable to expect that a company can prevent both a tax penalty and a tax overpayment by paying estimated taxes on a dollar for dollar basis coincident with final tax liability. Roseville therefore submits that the

Commission should permit companies to reflect in rates the effect of a reasonable overpayment of estimated tax for cash working capital purposes. Roseville submits that its overpayment of estimated taxes reviewed in this proceeding is reasonable.

Therefore, AT&T seriously misrepresents this matter when AT&T states (Opposition at p. 38, n. 52) that, "Consequently, by its own admission (at 22), Roseville overstated its net lag by approximately 5 days." This statement is wrong. What Roseville actually stated in its Direct Case by way of summary (at pp. 21-22) was,

"Accordingly, the resulting net overpayments are the necessary result to meet the government's tax requirements while avoiding tax penalties. Additionally, the tax overpayments are not significant and if eliminated, would reduce Roseville's lead lag study from 49 days to approximately 44 days."

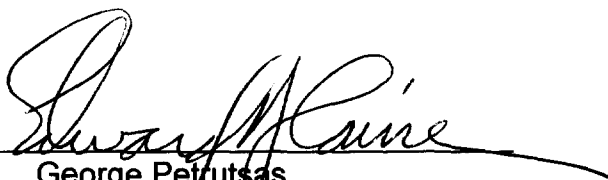
Although Roseville did not appeal the Commission's Order in the 1993 Annual Access Filings following its cost/benefit analysis of the financial impact of that decision on the Company and made its refund in accordance with the Commission's Order, under protest, Roseville strongly submits that it would be improper to disallow the CWC effect of the temporary overpayment of estimated tax in this proceeding since it occurred in the ordinary course of business as the result of sound business practice, is representative of Roseville's actual operating experience, is normal and reasonable in relation to the potential impact on Roseville of wholly unrecoverable tax penalties, and since it is impossible for Roseville to prevent without incurring such penalties. Therefore, the CWC effect of such overpayment does constitute a day-to-day cost of doing business and, as such, ratepayers should bear this cost.

## **CONCLUSION**

For all the reasons set forth in its Direct Case as well as its Rebuttal to the Opposition of AT&T, Roseville respectfully submits that the Company's lead-lag study is proper, that it accurately reflects the Company's actual normal operating experience, and that it is reasonably representative of condition's prevailing during the test period of this proceeding; and, accordingly, Roseville's calculated cash working capital requirement should be upheld, its 1997 access tariff should be approved and the accounting order imposed in this proceeding should be removed.

Respectfully submitted,

**ROSEVILLE TELEPHONE COMPANY**

By: 

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September 24, 1997

## CERTIFICATE OF SERVICE

I, Judy Ryan, a secretary in the law firm of Fletcher, Heald & Hildreth, P.L.C., hereby certify that true copies of the foregoing Rebuttal of Roseville Telephone Company was served this 24th day of September, 1997, upon:

Via U.S. Mail

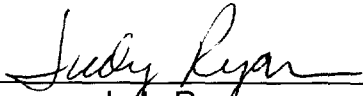
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